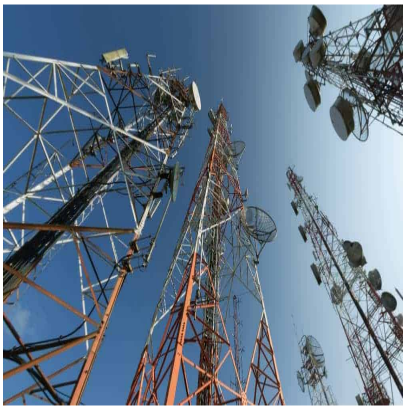

The Best Canadian Stock to Buy Today With $500

Description

There is no doubt that the Canadian telecom industry will witness a paradigm shift in the next few years. Some telecom giants are investing heavily in their networks, while some are expanding by acquiring smaller peers. Canadian telecom companies have primed up for the 5G auctions scheduled in the next few weeks. So, as an investor, how are you playing this change?

Canadian telecom industry ahead of the 5G revolution

I think **BCE** (TSX:BCE)(NYSE:BCE) is very well placed ahead of the 5G revolution compared to peers. Its solid balance sheet, extensive geographical presence, and one of the largest subscriber bases should bode well in these transforming times.

Canadian telecom space is dominated by three bigwigs—BCE, **Telus** (TSX:T)(NYSE:TU), and **Rogers Communications** (TSX:RCI.B)(NYSE:RCI). They collectively control more than 90% of the market share.

The telecom industry is comparatively very stable. It earns stable revenues and earnings in almost all economic situations, making them classic defensive stocks.

BCE operates through three main verticals: wireline, wireless, and media. Its wireline segment, which includes TV and internet services, is the main contributor, accounting for 52% of total revenues. Mobile or wireless vertical makes up around 37%, and media account for 11% of total revenues.

Financials

Both Telus and BCE reported nearly 4% average revenue growth in the last decade. Similarly, their EPS growth stood close to lower single digits in the last 10 years.

That’s trivial growth. However, investors preferring stability might not bother much. At the same time, telecom companies like BCE will likely see superior growth in the next few years once 5G opens up fresh growth opportunities for them.

In Q1 2021, BCE's operational metrics remarkably improved across all segments, indicating impending earnings recovery. The management gave decent guidance, suggesting 1%-6% adjusted earnings growth for 2021.

Among Telus and BCE, the latter has consistently been able to report superior net margins, which led to a higher return on equity. The return-on-equity ratio indicates how effectively the company uses its equity to generate net profits.

Growth potential

BCE intends to invest approximately $4 billion in capital projects annually for the next two years. It plans to provide 5G coverage to approximately 70% of the Canadian population in 2021 under its biggest capital spending plan so far.

Its large balance sheet and manageable leverage will allow it to invest more under capital projects to reap benefits in the longer term.

In comparison, Rogers Communications, the biggest telecom company by subscriber base, has announced its acquisition of **Shaw Communications** early this year. Its debt-heavy balance sheet and the acquisition, if approved, will likely create a substantial leverage burden. This might hamper its capital investment abilities in the 5G era for years.

Best Canadian stock to buy

BCE stock stands tall on the valuation and dividend yield front as well. It yields nearly 6%, higher than Rogers and Telus. It will likely continue to raise shareholder payouts for the future, driven by its stable earnings and solid balance sheet.

BCE is trading 16 times its 2021 earnings on the valuation front, while Telus is trading at 19 times. Though BCE has underperformed peers since last year, I think it is poised to outpace in this changing world.

Its attractive valuation, superior yield, and visible earnings growth stand tall among peers, which will likely drive its outperformance in the long term.

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